

SUMMARY

I. Description of Item

The resolution establishes a fund balance policy for both the General Fund and the Debt Service Fund to provide guidelines that facilitate maintaining strong bond credit ratings and to provide for the cash flow needs of Shelby County.

Fiscal 2009 was the first year in many years that the County was not required to issue short-term debt to provide for cash flow needs. The General Fund expenditures are spread fairly equally throughout the year but most of our primary revenue, property taxes, is collected at the end of December and February. This creates a cash shortfall from July through late December that must be provided for by either short-term borrowing or by maintaining adequate fund balances. By establishing a fund balance policy that requires maintaining adequate fund balances the County can avoid issuing short-term debt. In addition, this will provide the level of fund balances expected by the rating agencies for governments to receive strong credit ratings which we define as AA or higher. For Counties with a population between 250,000 and 1,000,000 with a rating of AA, a report by Moody's shows the median General Fund unassigned fund balance is 23.76% of revenue. As of June 30, 2008, the Shelby County General Fund unassigned fund balance is 17.23% of revenue. The Administration recommends establishing a policy of maintaining General Fund unreserved undesignated fund balance as a percent of revenue between 12.5% and 25% with the intent of moving towards the higher end of this range.

The Debt Service Fund expenditures are primarily debt service payments. For most debt, interest is paid every six months and principal is paid once each year. Our debt service payments are spread throughout the year but the largest payments are interest on September 1 and October 1 and both principal and interest payments on March 1 and April 1. Property taxes are the primary revenue with collections primary at the end of December and the end of February. Based on Debt Service Fund actual cash flows for fiscal 2009 and projected cash flows for 2010, the Debt Service Fund requires a minimum fund balance of \$40,000,000 or 24% of budgeted fiscal 2010 revenue. The fund balance of the Debt Service Fund, excluding the amount restricted for Rural School Bonds, as of June 30, 2008 is \$68,076,282. It is intentionally high to provide for the peak in debt service requirements in 2009 through 2011 as we expect to use fund balance in those years. The Administration recommends establishing a policy of maintaining assigned fund balance of the Debt Service Fund in a range of 20% to 30% of revenue with the intent of being in the upper half of this range. The current level of assigned fund balance is expected to be reduced through 2011 and should be reduced to no more than 30% of revenue as the General Fund level is increased to at least 20% of revenue.

In 1993, Shelby County established a Rainy Day Fund that effectively provided a minimum fund balance in the General Fund. By establishing a fund balance policy as provided in this resolution eliminates the need for the Rainy Day Fund. In addition, fund balance reporting requirements have been changed by the Governmental Accounting Standards Board that could be interpreted to require a Rainy Day Fund as a type of restricted or assigned fund balance. For bond credit rating purposes, it is strongly preferable that the amount currently in the Rainy Day Fund be reported as unassigned fund balance. This will also make the Rainy Day Fund balance available for cash flow purposes.

II. Sources and Amount of Funding

Not applicable

III. Contract Items

Not applicable

IV. Additional Information Relevant to Approval of this Item

Administration recommends approval of the resolution.

Item # _____

Prepared by Mike Swift

Approved by Brian Kuhn
County Attorney

RESOLUTION ESTABLISHING A FUND BALANCE POLICY FOR THE GENERAL FUND AND THE DEBT SERVICE FUND AND TO ELIMINATE THE RAINY DAY FUND. SPONSORED BY COMMISSIONER J. W. GIBSON.

WHEREAS, The bond rating agencies consider unassigned or unreserved fund balance of the General Fund an important indicator of financial stability; and

WHEREAS, The General Fund and the Debt Service Fund require a substantial fund balance to meet cash flow requirements because property taxes are collected primarily from late December and early March and expenditures a fairly equally spread throughout the year; and

WHEREAS, Based on cash flow requirements, information from rating agencies and recommendations of our financial advisors, the Administration recommends that Shelby County establish a fund balance policy as provided herein; and

WHEREAS, Establishing a fund balance policy eliminates the need for the rainy day fund.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF SHELBY COUNTY, TENNESSEE, That the a fund balance policy is hereby established as follows:

It is the policy of Shelby County to maintain General Fund unassigned fund balance in a range of 15% to 25% of annual revenue. For the Debt Service Fund, it is the policy of Shelby County to maintain assigned fund balance of 20% to 30%.

BE IT FURTHER RESOLVED, That it is the intention of Shelby County to increase General Fund unassigned fund balance as a percentage of revenue to the higher end of this range over time.

BE IT FURTHER RESOLVED, That Shelby County expects assigned fund balance of the Debt Service Fund to exceed 30% of revenue until at least 2011 and to move below 30% as the General Fund unassigned fund balance moves above 20%.

BE IT FURTHER RESOLVED, That the Rainy Day Fund is hereby eliminated and resolution 22 dated December 16, 1993 creating the Rainy Day Fund and all subsequent resolutions regarding the Rainy Day Fund are superseded by this resolution.

A C Wharton, Jr.
County Mayor

Date_____

ATTEST:

Clerk of County Commission

ADOPTED _____